

# PROCUREMENT MANAGER'S GUIDE

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CREATED BY  
NEXTBUY TEAM



## **THEORY IN PRACTICE**

What's wrong with the Kraljic Matrix?

How to support company with no purchasing strategy and how to kick off?



## **PROCUREMENT SOFTWARE**

E-procurement in SME. Does it make sense?

4 ways to convince your company board to invest in procurement software



## **GOOD PRACTICES**

How to use online auctions?  
A couple of good practices from buyer to buyers

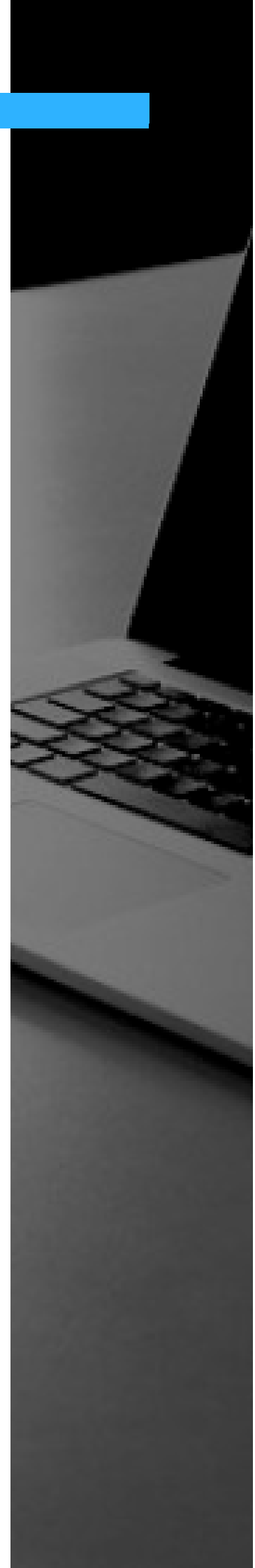
Purchasing of a car fleet?  
Nothing easier!



## **MANAGEMENT OF PROCUREMENT TEAM**

Who's a new procurement professional?  
Top 4 competencies and skills CPO's want most

How to build procurement teams and develop the employees working for purchasing departments??



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# INTRODUCTION

*Purchasing is a very complex (and complicated) business area.*

*Purchasing departments, while not always appreciated, play strategic role in the company. Or at least they should.*

*For a long time we have been trying to regularly provide a dose of purchasing knowledge, not only by advising our clients, but also by creating articles and actively participating in industry events.*

*During this time, we tried to answer such questions as:*

- → **who is the buyer?**
- → **what competences should he have?**
- → **how to manage purchases?**
- → **how to streamline and automate processes?**
- → **foes theory translate into practice?**

*We have answered these and some other questions in our articles, which we have put together in thematic blocks and made available in consolidated form.*

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WE WISH YOU AN INSPIRING READING

NEXTBUY TEAM



# THEORY IN PRACTICE

**WHAT'S WRONG WITH THE KRALIJC MATRIX?**

**HOW TO SUPPORT A COMPANY WITH NO PURCHASING STRATEGY AND HOW TO KICK OFF?**



THEORY IN PRACTICE

# What's wrong with the Kraljic matrix?

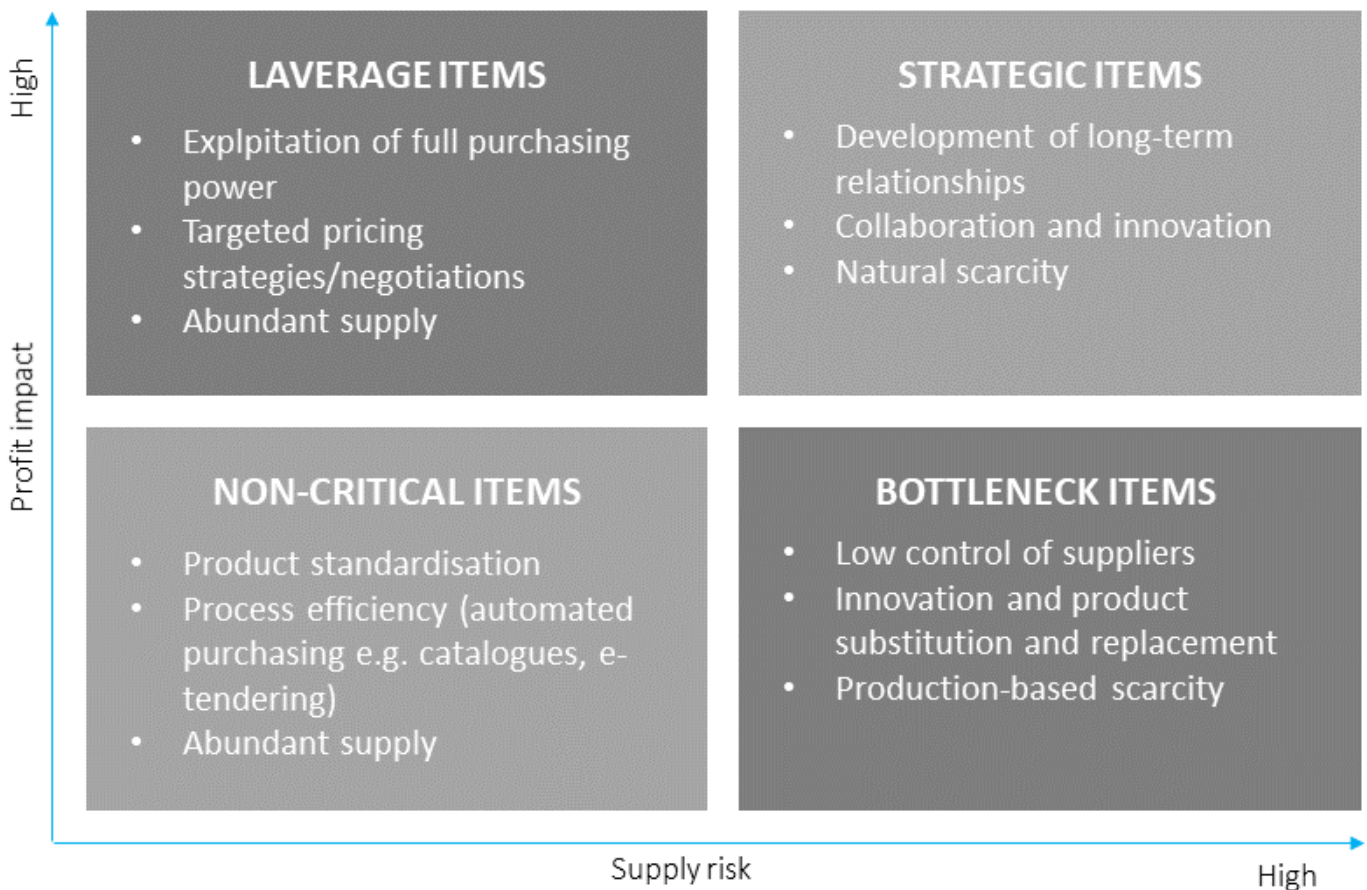
The first news on the Kraljic matrix appeared in 1983 and was published by Kraljic himself. It became amazingly popular almost immediately after it was announced and named a procurement breakthrough.

Until today the Kraljic matrix is considered as the basic tool for cost categorization in companies. Unfortunately, the tool does not always work. Therefore, **what's wrong with the Kraljic matrix?**

**The matrix itself is perfectly fine. But the Kraljic matrix is just a tool as any other strategies available on the market. The problem is whether it's used in a good way.**

## WHAT'S THE KRALJIC MATRIX?

Dr Peter Kraljic proposed that supply items should be mapped against two key dimensions: risk and profitability. The results were presented as a matrix (Source: Peter Kraljic, HBR):



## WHAT'S WRONG WITH THE KRALJIC MATRIX?

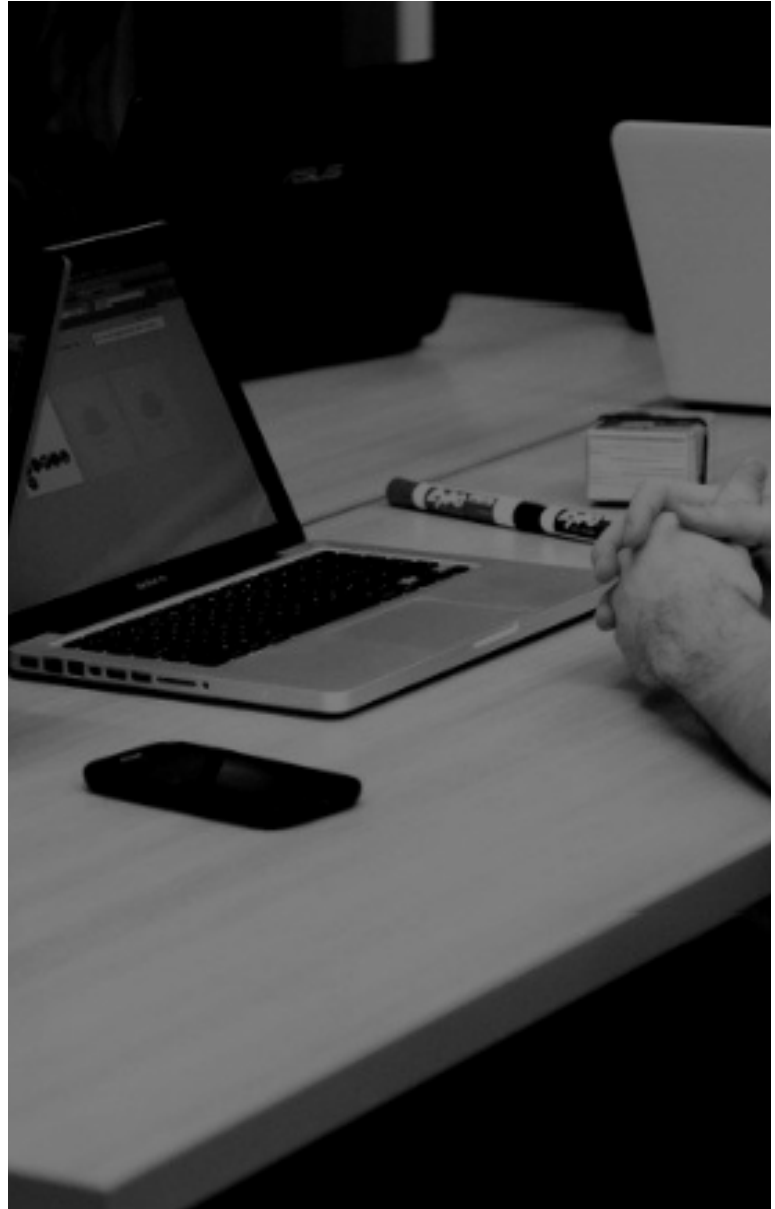
The categories/product have been divided into the following segments:

**Strategic items** - the development of long-term relationships with partners should be crucial in this segment. We should not forget about supplier evaluation and measuring their performance to control and report the risks arising from those contracts or activities. How to do it effectively? The SRM systems such as NextBuy would be a great support in this case

**Leverage items** - the segment in which we should exploit full of purchasing power to get best negotiation results. In this case online auctions might be really supportive. You can try them in NextBuy

**Bottleneck items** - the main focus is on supply warranty. Product categories in this quarter are not high-value, but critical for proper company operations. That's why we should focus on decreasing delivery risk rather than on price negotiation

**Non-critical items** - the main focus is on process automation (P2P). Often the process of submitting, accepting and realization of orders is more expensive than the value of the purchase. That's why we should automate the process. You can do it with the system such as NextBuy



**The Kraljic matrix works best when building the strategy for particular categories. It allows to look at the company spending globally and group the costs. As a result we get a ready "recipe" on how to manage the category in a particular group.**

## WHAT'S WRONG WITH THE KRALJIC MATRIX?

### What are the reasons the Kraljic matrix does not bring the assumed effects?

*there are two main factors which make the Kraljic strategy fail:*

- 1. Incorrect segmentation within the matrix*
- 2. Not paying attention to the supplier perspective (company "power" vs supplier "power")*

Procurement is a constant company and supplier interaction. Even though we categorize our products properly, using the Kraljic matrix, we need to ask ourselves a question:

### What kind of customer am I for my supplier?

Robert Monczka in his book Purchasing And Supply Chain Management suggests the following customer segmentation from a supplier perspective:



### WHAT KING OF CUSTOMER AM I FOR MY SUPPLIER?

#### CORE ACCOUNT

invest and focus on them

#### DEVELOPMENT ACCOUNT

has a potential to become a core account, worth to pay attention and extend the cooperation

#### EXPLOIT ACCOUNT

not a part of future plans, increase prices and wait till the account gives up (if he doesn't, we make good money at least)

#### NUISANCE ACCOUNT

no plans to investigate, second category customer

## WHAT'S WRONG WITH THE KRALJIC MATRIX?

The most relevant outcome is the table with a Buyer perspective and Supplier perspective. The results are presented on the graphics below (Source: Purchasing and Supply Chain Management. R. Monczka):

<b>Critical</b>	<b>Development</b>	<b>Core</b>
	Offer incentives, raise mutual dependency	Strong position, Maintain relationship, offer support
	<b>Nuisance</b>	<b>Exploit</b>
	Increase attractiveness or de-risk/change supplier	High risk, monitor price trend, increase attraction

<b>Strategic</b>	<b>Development</b>	<b>Core</b>
	Seek areas of mutual dependency	Maintain longterm relationship
	<b>Nuisance</b>	<b>Exploit</b>
	<b>High Risk</b>	<b>High Risk</b>
	Increase attractiveness, incentivise, monitor price and service level trends	

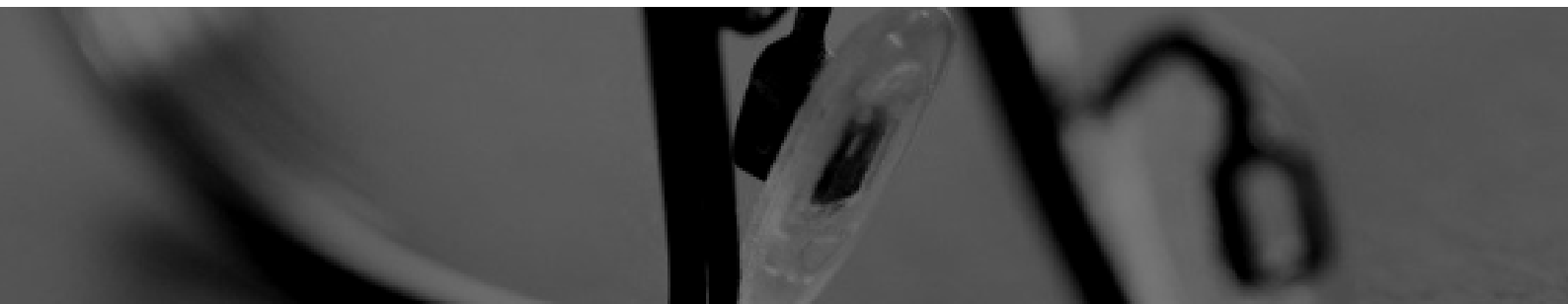
<b>Acquisition</b>	<b>Development</b>	<b>Core</b>
	Offer incentives, raise mutual dependency	Strong position, maintain relationship and offer support
	<b>Nuisance</b>	<b>Exploit</b>
	Passive relationship	High risk, monitor price trend, increase attraction

<b>Leverage</b>	<b>Development</b>	<b>Core</b>
	Seek mutual development and participation	Improve own profit
	<b>Nuisance</b>	<b>Exploit</b>
	Change supplier	Contract or move supply, measure performance

## SUMMING UP:

1. The Kraljic matrix is an extremely valuable tool which allows to look at the procurement holistically.
2. The Kraljic matrix will work, if we take into account both a buyer and supplier perspective.
3. Using the Kraljic matrix doesn't mean that we need to do all the things manually. NextBuy provides the functions which suit to the strategy described in the Kraljic quarters.





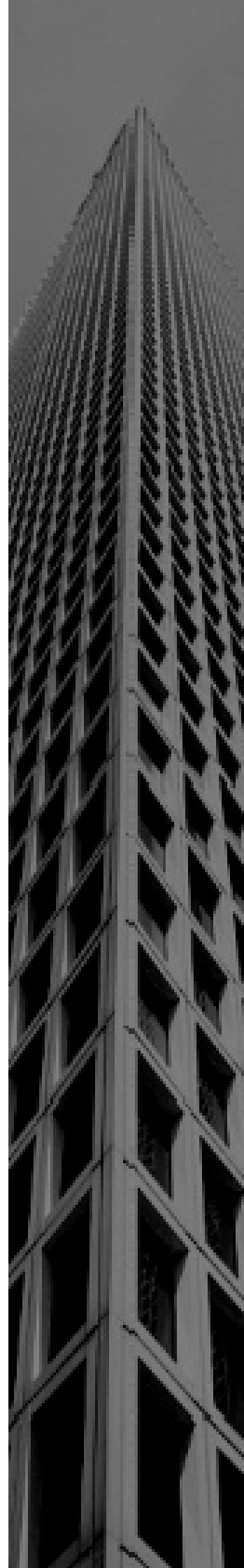
# How to support a company with no purchasing strategy and how to kick off?

Well structured, professional procurement processes may bring huge value for a business. It's hard to estimate how much exactly a company can save thanks to a well-functioning procurement strategy as there are many processes having impact on generating savings.

Although cost cutting and savings are still a priority for about 79% CPOs according to the Deloitte report. Let's picture this: you're joining a company where each department buys independently from various suppliers and an acceptance workflow is done via emails or just face to face.

Certainly, this model may work perfectly, however it doesn't cause any savings. You get a task to work on a purchasing strategy for the company.

Huge challenge, isn't it? And it doesn't necessarily have to be completed successfully. All depends on how we kick off the project and how the change management is going to be coordinated. How to start and keep a cool head? We have a hint for you!



## HOW TO SUPPORT A COMPANY WITH NO PURCHASING STRATEGY?

### 6 first steps you need to take to support a company in building purchasing policy:

#### 1. Take a deep breath

There is a long way to go. But if you approach the task smartly, you will be surely successful.

#### 2. Analyze the categories

You may base your project on Kraljic Matrix. You will find more about how to carry out a proper analysis you in the infographics below.

#### 3. Use the small steps method

In the companies where there is no procurement policy, usually the teams responsible for purchasing have limited human resources. That's why it's good to start with rather smaller revolution.



#### 4. Check how it works today

Implement software which helps you monitor and verify what's going on.

#### 5. Engage the teams

which buy standard items regularly (for example, office supplies, IT devices for employees, marketing gadgets, trainings)

#### 6. Recreate procurement process models

Basing on your talks with the managers. Below you will find a hint how to systemize gathered information.

# GOOD PRACTICES

**HOW TO USE ONLINE AUCTIONS? A  
COUPLE OF GOOD PRACTICES FROM  
BUYERS FOR BUYERS**

**PURCHASE OF A CAR FLEET? NOTHING  
EASIER!**



# How to use online auctions?

## A couple of good practices from buyers for buyers

**A reverse auction** is one of the most often used auctions. The suppliers invited to participate in the auction gradually decrease their prices for the goods and services. Eventually, a buyer gets the lowest price for the service meeting buyer's requirements.

**What are the good practices of a reverse auction which streamline the process, and most importantly, help negotiate best price for best quality?**

1

Before the auction launch, we recommend to send a regular RFX to the suppliers we want to invite. The goal is to do a little research on the market and include only the suppliers who meet basic requirements.

2

The auction basic time is approximately 20 minutes. It's absolutely enough to get to know the auction details, and so short that it generates an effect of competitiveness.

3

It's important to set up a bid increment – usually it's 0.25% up to 0.5% of a current bid. Thanks to that the auction does not last too long and it's effective.




4

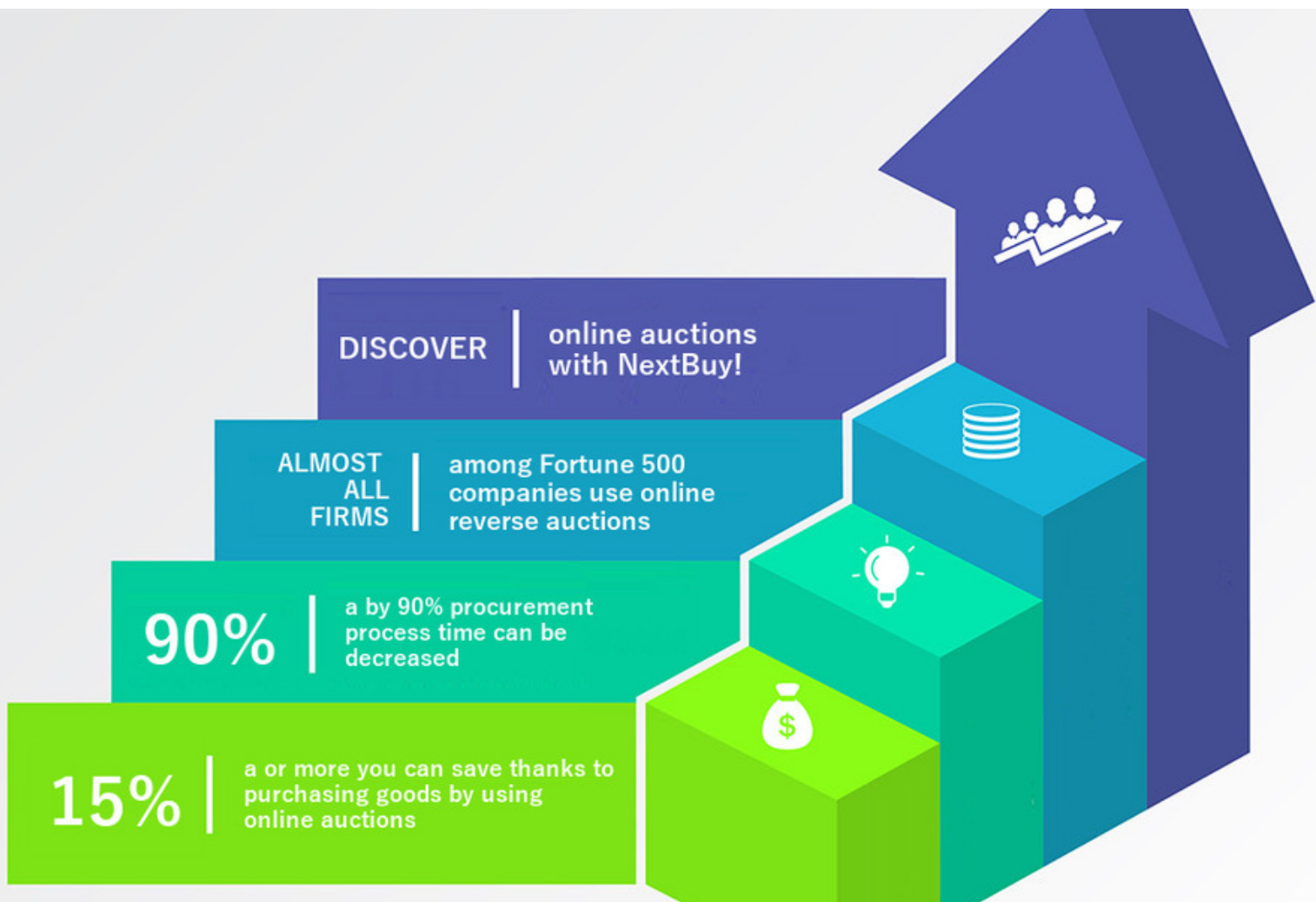
A reverse auction may be used while buying all types of goods and services, but it's most useful when purchasing popular products (according to the Kraljic Matrix that would be "leverage" and "non-critical" group of products – the article on Kraljic Matrix coming soon). In these cases, the relation with a supplier or a producer does not really matter to us. The reverse auction will be also useful when there is no high spread.

## HOW TO USE ONLINE AUCTIONS?

**Reverse Dutch auction** – the buyer raises the price from a low starting point until a supplier agrees to sell at the stated price. The price is bid up according to the parameters (for example, every 30 seconds for 1000 USD). The first bid accepted by a buyer wins the auction.

### Any good advice?

-  Same as for a reverse auction, it's good to do research on the market before we start the auction and invite only the representatives who meet the basic requirements.
-  Basing on the market knowledge, we set up a time interval after which the price increases (such 30 seconds and 1000 USD)
-  Reverse Dutch auction is really useful while purchasing goods or services with a high spread and limited number of suppliers.



# Purchase of a car fleet? Nothing easier!

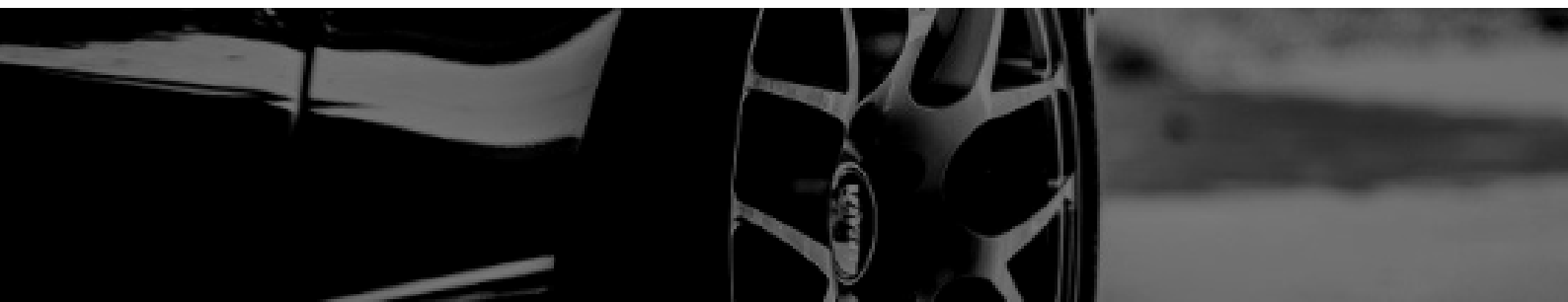
The issue of equipping an enterprise with a car fleet concerns not only large companies, but also medium-sized ones. People responsible for the exchange or purchase of new vehicles face a real challenge. When making such a decision, they have to take into account many factors, assessment criteria and variety offered by the market. How do you organize it so you do not go crazy and make the best decision?

Selling cars for business customers is often a pillar of the functioning of companies producing or importing cars. Hence very favorable offers for entrepreneurs. Car dealers propose a variety of packages that may include not only the purchase of the vehicle itself, but also fleet service, tailor-made offer and financing methods. Moreover, the belief that the price plays a key role in choosing a car fleet for companies has long been out of date. According to the Biznes-Firma website, today security and economy matter, so we have to take into account further factors that make the selection of the car fleet more and more complex.



## WHAT CATEGORIES SHOULD BE CONSIDERED WHEN CHOOSING A CAR FLEET?

1. Model, equipment and class.
2. The service offer, including the availability of replacement cars.
3. Car fleet management offer.
4. Insurance.
5. Residual value.
6. The method of financing



PURCHASE OF A CAR FLEET? NOTHING EASIER!

## How Amica bought the car fleet and save the money?

Increasingly, it turns out that enterprises are moving away from buying cars for their own - both for cash and for loans - for leasing and (increasingly) for long-term rental. According to Bankier.pl, leasing increases the liquidity of the company's current assets, as financing takes place from external sources, and is also posted on off-balance accounts, thanks to which it does not disturb the target capital structure of the company.

### SOLUTION

The NextBuy team, already familiar with the basic assumptions of the process, proposed a two-stage process

#### STAGE 1

Creation of the basic minimum specification separately for each class of car (class D, C and usable) and market launch for producers selected by Amica without any offer restrictions. The NextBuy bidding module was used for the first stage of the tender, which allows for flexible creation of queries with various types of questions, attachments and tables.

Based on the minimum data, the suppliers were invited to the first round. The goal was to get information about the price per item, depending on the car segment.

Based on the data obtained from the suppliers, the customer chose the final car brand that met his requirements and qualified the suppliers for the second round using the bid evaluation module at NextBuy.

#### STAGE 2

Leasing companies were invited to the second round to submit leasing offers for selected car models.

Thanks to the standardization of the inquiry sent to suppliers, NextBuy compared the offers in an automatic manner and sorted them from the most advantageous to the least favorable, which facilitated the verification of offers by the customer.

The client started the discussion on the final terms of the contract with the selected company.

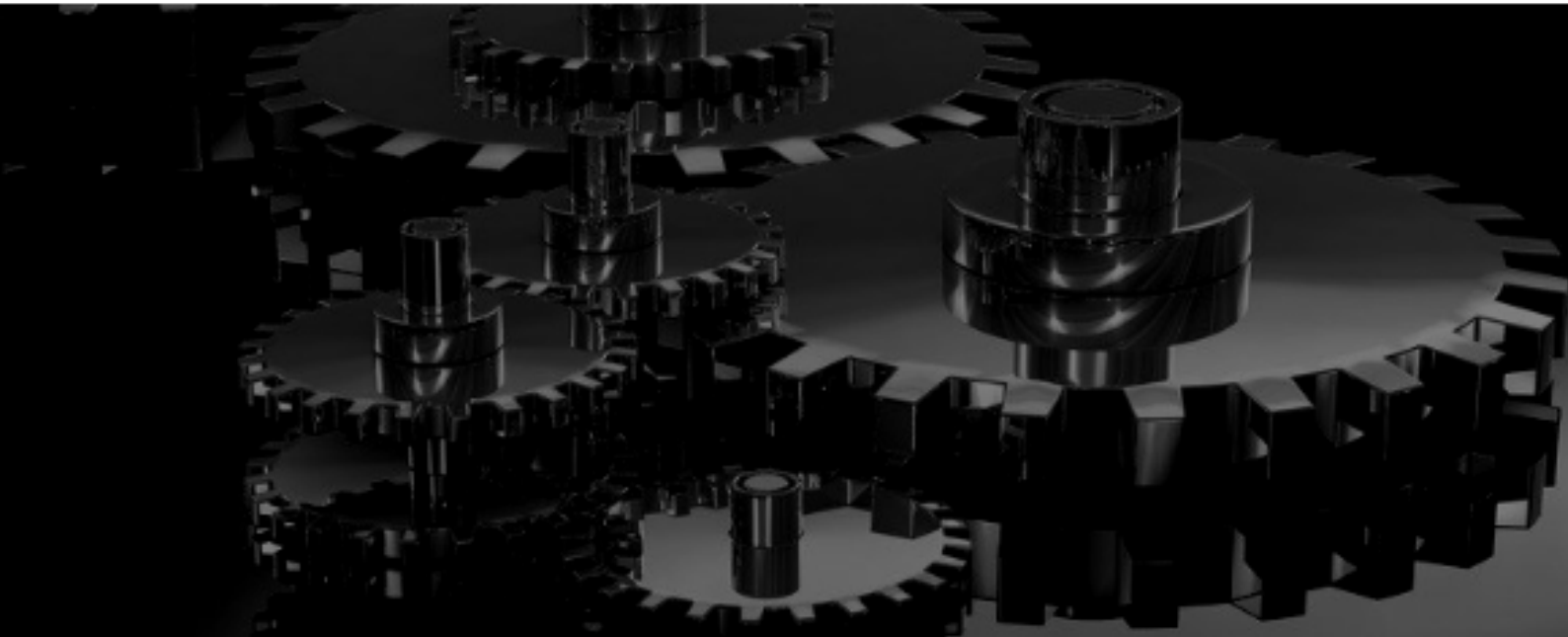


CASE STUDY AVAILABLE ON NEXTBUY WEBSITE

# PROCUREMENT SOFTWARE

**E-PROCUREMENT IN SME. DOES IT MAKE  
SENSE?**

**4 WAYS TO CONVINCING YOUR COMPANY  
BOARD TO INVEST IN PROCUREMENT  
SOFTWARE**





# E-procurement in SME.

## Does it make sense?

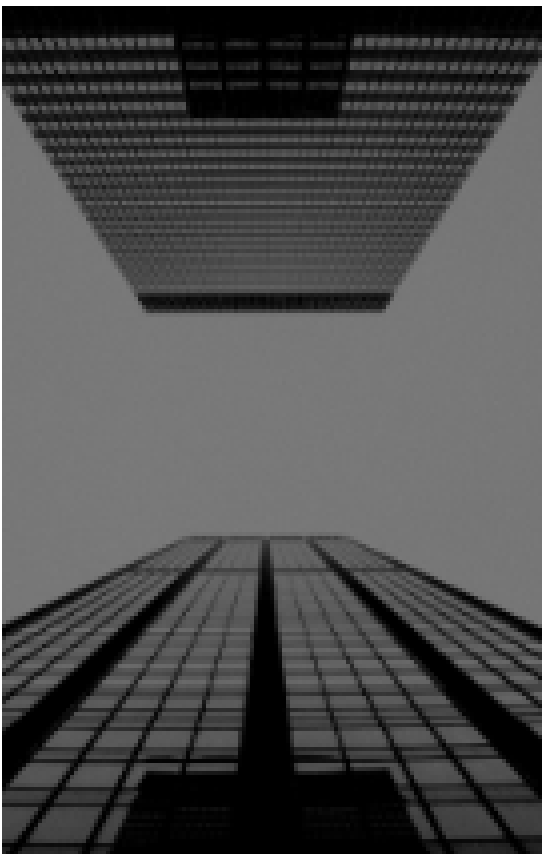
Small and medium-sized enterprises, so the SMEs ( according to the European standards those are the ones hiring from 10 up to 250 employees, while the companies with less than 10 employees onboard are defined as micro companies) account for 99% of all firms in the European Union, contribute most of total employment and are an essential element of every developing economy. In the UK alone there are 97.000 SMEs formed each year! SMEs spend between 45% and 60% of sales revenue on procurement of raw materials and professional services. Small business owners are increasingly subscribing to cloud-based software services too.

**99%**

SMALL AND MEDIUM  
COMPANIES ON THE  
EU MARKET

**45-60%**

SMALL AND MEDIUM  
COMPANIES'  
EXPENDITURE IN  
PURCHASE OF RAW  
MATERIALS AND  
SERVICES



Taking into account all the numbers, the overall picture is as follows: SMEs are very often backbones of the economy, they do care about digitalization and are willing to adapt technological developments. Due to the small scale of their businesses, the SMEs owners smartly invest in SaaS solutions which answer their needs, also the procurement process requirements.

In case of SMEs, SaaS solutions seems to be most reasonable due to simple implementation, affordable price, flexibility and availability from every device and place. The same applies to procurement software.

E-PROCUREMENT IN SME. DOES IT MAKE SENSE?

## Here are the 5 reasons why e-procurement makes sense for SMEs

For what purpose do you need purchasing systems for small and medium businesses, if everything can be put in files, send by email or you can just make a call?

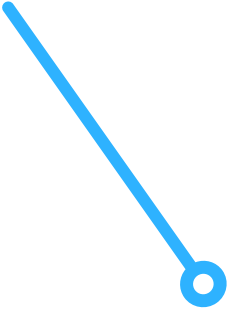


### 1. transparency

One of the biggest pain points of SMEs is dynamic growth in a relatively short time. During a couple of years companies grow from 5 people onboard (mainly the founders) up to 50 or 100 employees. Then the procurement transparency issue is getting complicated. While the xls files and emails were sufficient for 10 people (although not always, all depends on the kind of company activity), the information flow may be tough among 50 people with various purchase needs (especially if the work in different offices/places).



### 2. limited human resources



Small and medium-sized companies during their first years of activity are focused mostly on generating sales revenue and business development, rather than operational support. Excellent SMEs don't usually create big procurement teams. There are only 24 hours a day. That's why procurement software is great at supporting procurement teams in SMEs as the systems automate operational processes, provide employees with the templates or ready reports.

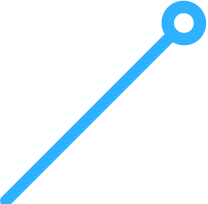
### 3. access to suppliers

Variety of suppliers and regular market verification are the keys to the savings. Thanks to procurement apps with already implemented reliable supplier database, small and medium-sized enterprises can freely get in touch with new suppliers and check them out. While big companies are less flexible in this area, SMEs would love this form of sourcing.




## the 5 reasons why e-procurement makes sense for SMEs

### 4. spend analysis



This is another example of the process which can be easily automated with the procurement software with a report module included. Eventually a company gets reliable data which is basic for building company strategy. This kind of data is crucial for all SMEs where the cost of every purchase is meaningful.

### 5. streamlined communication



A buzzword which appears during every business conference. But actually communication is really important in every kind of business. It seems SMEs have no issues with communication as all employees know each other, talk to each other or in a worst case scenario they can send an email with CC to all. Nothing more misleading! See point 1. Communication and information flows are crucial to keep procurement process transparent and jointly implement company strategy.

Every small or medium company is different, a lot depends on the industry, but each one needs proven suppliers, clear processes, automation of what can be automated and ... savings.



# 4 ways to convince your company board to invest in procurement software

The way how procurement is seen in an organization depends on the scale and complexity of the business, industry and many other factors. It happens that procurement is a part of an admin department, sometimes procurement teams report to the CFO, sometimes to other managers and sometimes they are independent units. This is the reason why procurement is seen differently in various businesses. Although the procurement competencies change dynamically, there are still a couple of myths about the procurement.

**50%**

CEO HAVE NO IDEA  
WHAT A  
PROCUREMENT  
TEAM REALLY DOES

**58%**

CEO THINK THAT  
PROCUREMENT IS  
UNEFFECTIVE

And here are the facts. According to one of the consulting companies research 50% of CEOs have no idea what a procurement team really does. According to another survey 58% of CEOs think that procurement is ineffective and needs to be re-organized. How to change this attitude and debunk the myths? Procurement software and online auction platforms may be a perfect solution in that case! Not only do they support procurement teams work, but also they bring a huge value to the C-level employees.

## WAYS TO CONVINCING YOUR COMPANY BOARD

# Here are 4 ways to convince the Board to invest in procurement software.



### FOLLOW BEST-IN-CLASS COMPANIES

Board members want to be leaders and follow the leaders in their area. All companies from the Fortune 500 list decided to invest in online auction systems and noticed savings up to 15% on the acquisition of goods and services and procurement cycle time was decreased by 90%. Procurement platforms with online auction module will be a great solution.

### TRANSPARENCY AND COMPLIANCE

According to Forbes transparency has to be built on every business level, the sooner the better. Entrepreneur published 5 examples of companies succeeding through transparency. The board role is to take control over most relevant processes in a company. In large scale businesses it's extremely difficult, but still crucial. Procurement systems streamline information flow, process control and communication.

### SHOW THE MONEY

Although CFO and CEO priorities constantly change and innovation is in the top 5 key tasks, company financial results (including savings) are still no 1. To convince the C-suite to implement procurement software you should really show them reliable statistics and reports. How? Procurement software implementation experts will help you estimate the savings or you can check some case studies and see how other companies succeed in investing in procurement software.

### SUPPLIERS IMPACT ON A COMPANY IMAGE

A company image is one of the management priorities as it influences on brand awareness, development and how the product or service is seen and, eventually, on the revenue. Companies such as Danske Bank or RBS publish supplier selection policy on the company websites and invest in sourcing best suppliers. This process will be essential in the industries such as retail, manufacturing, cosmetics etc. Procurement systems enable creating supplier evaluation tables and adding specific questions when sending RFx (regarding CSR, company policy compliance, certificates, ecology etc.).

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# PROCUREMENT TEAM'S MANAGEMENT

**WHO'S A NEW PROCUREMENT  
PROFESSIONAL? TOP 4 COMPETENCIES  
AND SKILLS CPOS WANT MOST**

**HOW TO BUILD PROCUREMENT TEAMS  
AND DEVELOP THE EMPLOYEES WORKING  
FOR PURCHASING DEPARTMENTS?**

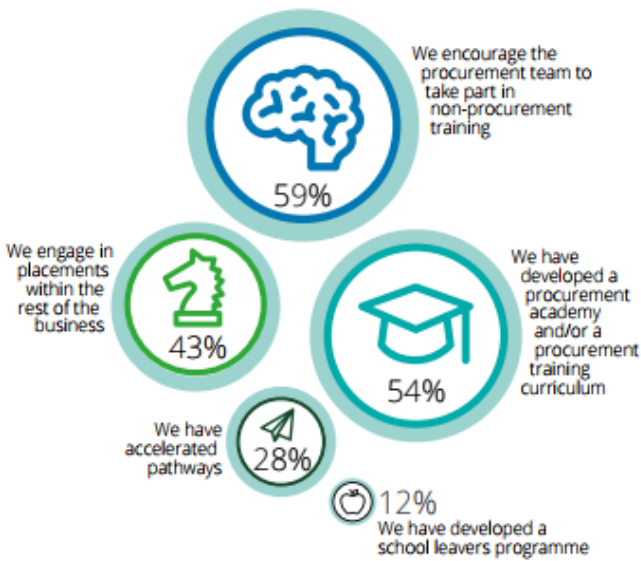


PROCUREMENT TEAM'S MANAGEMENT

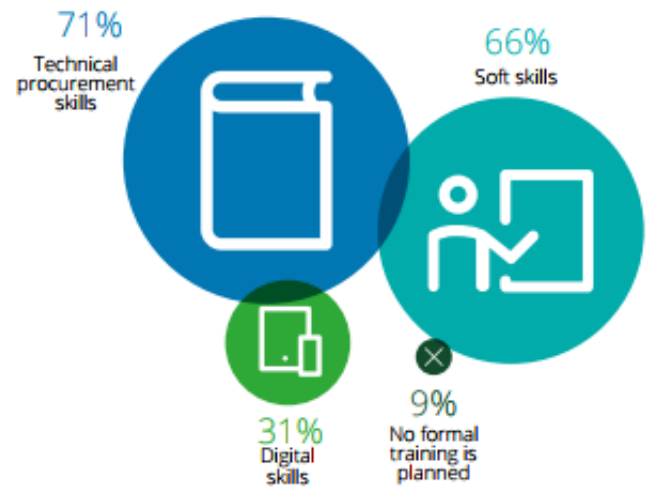
# Who's a new procurement professional?

A new is coming in the procurement area and all business leaders and CPOs know it pretty well.

Training remains the primary strategy for talent development



Area of training focus planned for 2017



**87% of CPOs surveyed in The Deloitte Global CPO Survey 2017 agree that the talent is the single greatest factor in driving procurement performance.**

The landscape of procurement talent is changing constantly and procurement leaders need a new type of employees. It was believed that someone who excels at sourcing and cost-cutting was a perfect candidate for a procurement team. Not any longer! Now CPOs are looking for rather strategic mindset and staff who connects what the business is aiming to accomplish and how procurement can help.

The reason why procurement leaders are looking for a new type of attitude is that procurement staff who take a strategic, business-centric view are more likely to build strong relationships, come up with more creative solutions and pave the route for procurement's involvement in the most strategic and lucrative projects. That's why CPOs are both searching for new competencies and skills while interviewing candidates and investing in trainings not related strictly to the procurement area, but rather to a broad strategic and business path. The numbers below show how training remains the primary strategy for talent development and what was planned as the main focus in 2017.



## WHO'S A NEW PROCUREMENT PROFESSIONAL?

# 4 competencies and skills a procurement professional need to have

And here is the critical question: What competencies will be (or already are) wanted by CPOs? Basing on statistics, our own experience and research, we have listed 4 competencies and skills a procurement professional need to have. Thus who's a perfect procurement professional?

## ANALYST

Right, this is something what has been required since always. Although analyzing data in Excel sheets wouldn't be enough anymore. What is really important is the ability to visualize, articulate, and solve problems and concepts and most importantly make decisions that make sense based on all available information. And primarily they make sense for the business.

## PROJECT MANAGER

Actually this skill is desired in almost every business field. Procurement professionals initiate, plan, execute and monitor the results. It requires a high level of self-organization and multitasking.

## INFLUENCER

It also includes negotiations as all is about communication and building relationships. And we don't mean only relations with suppliers (although they are essential in a communication chain), but most importantly with business leaders. A procurement professional needs to understand what are the business goals and clearly explain to the managers the procurement perspective. Not an easy task.

## INNOVATOR

It doesn't mean that procurement professionals need to be fluent in all available software systems (as no one is). But they need to have a strong drive to use at least one. Having an aptitude for technology is important because it shows you can do anything and you are not afraid of changes. So, when your company decides to deploy an IT solution, they can rely on you to pick it up quickly and use it effectively. Or you can even propose to your business leaders any kind of IT solution which will just support your work and make it more effective.

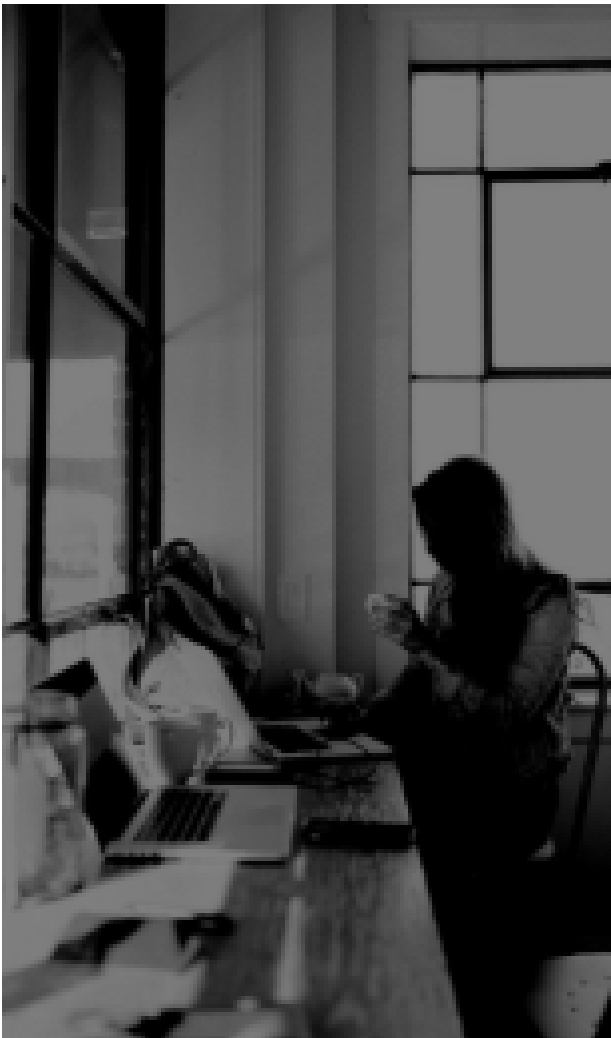
Certainly, we should list more skills and competencies which would be much appreciated in procurement teams, such as flexibility, result focused, financial acumen etc. But the ones we have mentioned change the picture of procurement professionals, who now play more business and strategic role rather than operational role.



PROCUREMENT TEAM'S MANAGEMENT

# How to build procurement teams and develop the employees working for purchasing departments?

*Today's procurement expert is not only able to source suppliers, order products and meet purchasing needs but also is an analyst, project manager, is able to understand what are the business goals and clearly explain to the managers the procurement perspective. Since we know what competencies we are looking for, we are facing **two big challenges**:*



## CHALLENGE 1

How to find potential employees with those competencies?

## CHALLENGE 2

How to make them stay with us?



HR Business Partner suggests mixing those two challenges

## HOW TO BUILD PROCUREMENT TEAMS AND DEVELOP THE EMPLOYEES WORKING FOR PURCHASING DEPARTMENTS?

### HR Business Partner suggests!

„THERE ARE TWO METHODS – WE CAN SEARCH FOR THE GOOD EMPLOYEE OR WE CAN HELP TO “DEVELOP” GOOD EMPLOYEE.

CONSTANT AND MUTUAL FEEDBACK TO SEE HOW A NEW EMPLOYEE FEELS AT THE COMPANY AND HOW WE FEEL WITH THE NEW PERSON ONBOARD

Marta Basińska

„There are two methods – we can search for the good employee or we can help to “develop” good employee. I believe that the second method is much more effective. There are many ambitious and talented students on the job market. We just need to present the company and build brand awareness among them. My favorite way to attract the students are workshops at colleges or universities during which we are able to present our company profile, industry and get students interest. After such workshops we can invite the interested students for an interview and eventually hire. Once we have such employee onboard it’s essential to take care of the person in a right way.

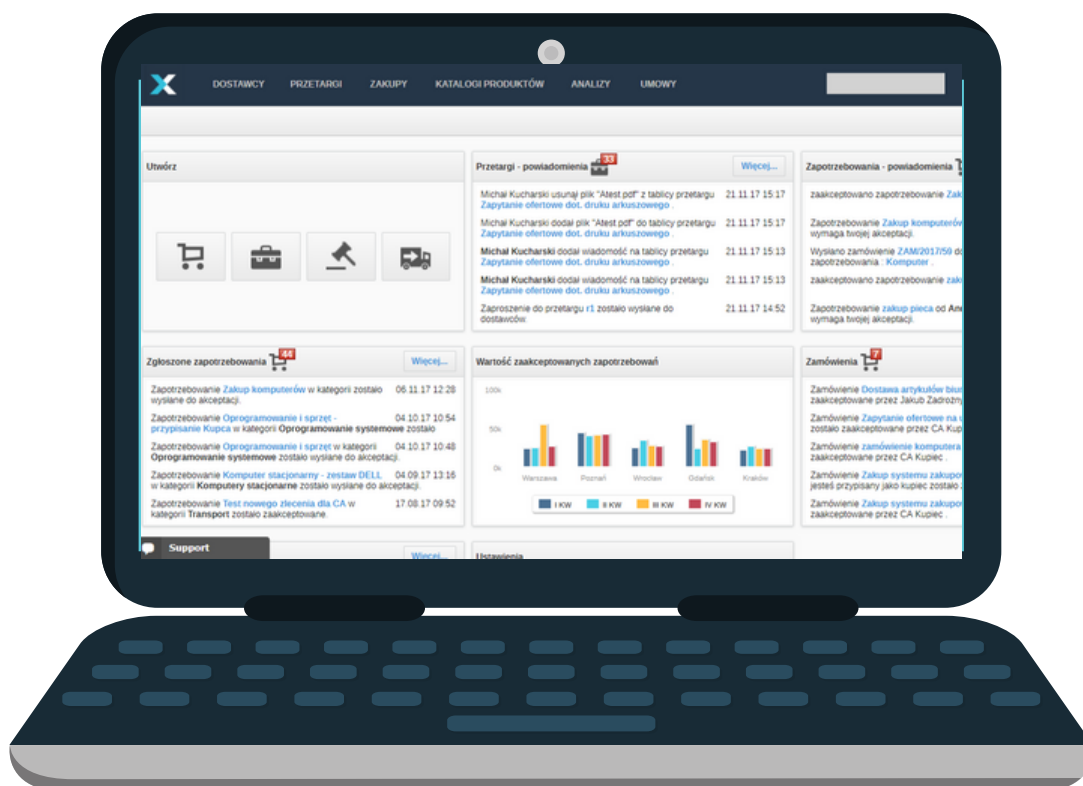
Sport card and private medical care are standard nowadays. We need to offer something more, such as development program, buddy program and most importantly – instant feedback on the employee performance and progress. According to Universum research, development opportunities are something what attracts young people and keep them working for the same company. Thus it’s worth to invest in such activities in my opinion.”

‘If we decide to acquire specialist from the job market, the task becomes a bit more complicated. Finding such experts who will meet the company expectations is really hard. Defining exact duties and responsibilities during an interview makes searching process and keeping an employee at the company bit easier.

HR expert states that one of the most important things is: „Constant and mutual feedback to see how a new employee feels at the company and how we feel with the new person onboard. This might sound obvious, but communication and positive relations between an employee and the supervisor are something what very often influence on the employee decision regarding staying at the company. Let’s keep in mind that people are joining a company but leave the boss. Let’s make sure during a recruitment process that our goals are coherent. If so, we should precisely define future duties of a new employee, give feedback and ask for feedback. If we can modify something without undermining any processes, let’s do so. Flexibility is really appreciated. If there is a way to move a person who’s excellent at sourcing new suppliers, do not keep the employee in operational procurement team.”

Summing up, don’t stop looking for new employees on the market, but be sure that you clearly state your expectations. Then you can be sure that your objective is coherent. You may also search for young and ambitious talents and then take care of their development.

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